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Introduction:

Good Morning Chairman Davis and Members of the Committee. Thank you for inviting me here today to continue our discussion concerning the Networx acquisition planning activities.

Since February, a year ago, when I last appeared before you to discuss this important government-wide telecommunications program, GSA has focused attention and energy on open and candid dialogue with our customers, industry, and other stakeholders. Our aim has been to refine a program that will bring needed high quality technology and exceptional value to the government as we move into the future, while ensuring maximum participation and competition from industry.

My remarks today will focus on GSA's vision for the program, a review of concerns raised by industry in response to the Networx draft RFPs, and a review of our schedule and plans for moving forward.

Tradition of Delivering Value

GSA - with support from this committee, our customers, and industry - has a tradition of delivering innovative and flexible telecommunications programs that respond to future as well as current markets, and meet the evolving needs of our individual agency customers. The Networx program will continue this tradition by providing significant value to our customers and the American taxpayer:

- First, GSA is uniquely positioned to aggregate and compete critical telecommunications service requirements on behalf of the Federal agencies on a scale that has consistently achieved preferred pricing.
- Second, our customers benefit from aggressive and responsive refreshment of services available on our contracts, enabling them to use the latest technologies to improve their operations at prices negotiated for, and available to all.
- Third, as a “shared services” telecommunications acquisition activity for all Federal agencies, we eliminate the cost and effort that would otherwise be required by each of our customer agencies to procure, support and upgrade those same services. This benefit is particularly important in today’s budget-constrained environment, in which our success can allow our customers to focus their limited resources on executing their core mission requirements.

In addition, GSA is able to provide leadership across the government-wide communications environment to foster the seamless, secure, efficient movement of information in the most cost-effective manner possible.

Vision to Deliver Value to Support the Networks of the Future:

The era of unprecedented change in the telecommunications industry continues, and at GSA, our need to anticipate the impact of these changes is as great as ever. We have designed the Networx program to respond to these changes while delivering our traditional value to customer agencies and meeting the demands of the future.

Today, GSA's Network Services business line provides everything from common calling cards and local dial tone to Internet Protocol (IP) based services with embedded security. But, we recognize that the services we provide through our strong relationships with industry -- though necessary and essential -- must deliver even more in the future. Looking ahead, the government will require the full range of innovative emerging technologies that can support an environment where enhanced information sharing, discovery, mediation, and collaboration are essential to our national security. We desire to be bold and forward thinking; yet, we recognize that while our focus is on the future, we cannot lose sight of the present, and the many customers who depend on our current service offerings.

With a focus on today's requirements, our customer agencies, as represented by the Interagency Management Council (IMC), have formally approved the following Networx Program Goals:

- Service continuity. All services to all locations that are currently provided on the FTS2001 and Crossover contracts must be included in the Networx program.
- Highly competitive prices. Prices on the Networx program must continue to be better than prices available elsewhere in the telecommunications marketplace.
- High quality service. Service on the Networx contracts must be provided by high quality telecommunications providers. The contracts must include enforceable agreements that will ensure high quality service is delivered throughout the term of the contracts.
- Full service providers. Service providers who are awarded contracts on Networx must be capable of providing a broad array of services.
- Alternative sources. Networx must provide access to a broad spectrum of industry service providers.
- Operations support. Improve ordering, billing, and inventory management.
- Transition assistance and support. The contracts must include provisions that facilitate transition coordination and support.

- Performance based contracts. The contracts must be performance based with Service Level Agreements to the extent possible.

The goal of Service Continuity is at the top of the list, reflecting its importance to our customers. Yet, in building the Networx program we cannot simply build a bridge to the present – we must build a bridge to the future with our focus on enabling government to exploit the value of the *next generation network* environment.

We know that the legacy network environment is based on a circuit-driven, cents-per-minute business model that is rapidly disappearing in the telecommunications marketplace. The future is a distance-insensitive, packet-driven, converged services model that, with the proper governance, will enable information sharing, seamlessness, and interoperability -- an environment where enhanced Government to Government, Government to Citizen and Government to Industry collaboration can co-exist.

Networx builds upon the success of its predecessor program, FTS2001, but is designed to attract new entrants and new technologies to the federal telecommunications marketplace and provide pathways to the next generation network environment.

As you know, our revised strategy consists of two acquisitions. Networx Universal meets agency requirements for full service providers who can offer a broad range of services and geographic coverage. GSA anticipates that 2 awards on Universal will meet our legacy requirements. Enterprise is

designed to make alternative sources available to agencies from offerors who can provide leading-edge services but do not have the ability to provide the broad services and geographic coverage required from Universal providers. GSA anticipates that 5 awardees will provide the alternative choices, leading edge services, and continuous competition desired from Enterprise during the life of the program.

Networx Universal and Networx Enterprise are two conjoined procurements that collectively satisfy today's needs while providing a path to the next generation network -- more specifically -- a path to some of the future providers of the next generation network. A central question for the Networx program is: Who will these providers be? Will they be the traditional service carriers of today? Will they be emergent new services providers? Will they be system integrators? GSA believes that it will be a combination of all of these. The Networx Program should attract all types of providers to the government telecommunications market.

Networx Enterprise has basically the same scope as Networx Universal yet there are significant differences aimed at broadening the competition. A competitor for Networx Enterprise must bid nine core services, as opposed to 37 in Universal. The core services required under Enterprise are not traditional legacy services. They are evolving IP-based services. Our acquisition strategy is designed to enable the offeror who bids Enterprise the ability to enter the Federal market with fewer mandatory offerings, yet be positioned to help carry the government forward to the next generation

network environment. We would like to see all the players in the telecommunications arena compete for these services.

To further emphasize the opportunities on Networx, awardees will be able to add services beginning two years after initial contract award. This will allow awardees, particularly on Enterprise, the opportunity to grow their business with government as their capabilities evolve. And it will allow government to benefit from their capabilities as they mature.

Networx Acquisition Progress

Over the past year and a half, throughout our acquisition planning efforts, we have continued to listen carefully to your Committee's guidance and to feedback from our customers and our partners in industry. We have actively solicited comment from all stakeholders at every step of our planning process. For example:

- In October 2003, we released a Request for Information (RFI) to industry to solicit comments on the Networx program.
- We held an industry conference in February 2004 to solicit additional input from government and industry stakeholders.
- Your February 2004 hearing provided additional feedback from industry, as well as the Committee's perspectives on our strategy.

- In August 2004, we convened another public forum attended by more than 223 companies to share information on our revised strategy, technical and price requirements, program operations, and revised billing requirements.
- Your September 2004 hearing on this program provided additional feedback and perspective that we considered and incorporated prior to release of our draft RFPs.

As a result, we revised our strategy and requirements significantly. For example:

- We adjusted our schedule to conduct simultaneous acquisitions for the Networx Universal and Enterprise contracts
- We reevaluated our minimum nationwide service requirement and reduced that requirement by nearly 70%
- We reexamined our ordering and billing requirements and reduced the number of elements required by 62%. We continue to solicit ideas from industry that will enhance our capabilities and efficiencies in this challenging management area.

Two Draft RFPs, one for Universal and one for Enterprise, were released on October 29, 2004. The following week we held a third public forum to present highlights and discuss the Draft RFPs.

By December 22, 2004, forty private sector companies -- telecommunications service providers, system integrators, and small businesses -- submitted more than 2500 comments in response to our Draft RFPs. Every comment has been carefully reviewed, and examined with the express intent of improving the Networx strategy.

Overview of Comments on the Draft RFPs:

As requested in your invitation, I will provide an overview of the industry comments received, discuss some of the challenges that we are working to resolve, and provide an update regarding priority items of concern raised by GAO with regard to the Networx Program.

Overall, the comments received in response to the Draft RFPs are positive and constructive. The comments reflect five categories of issues:

- technical Issues represent more than fifty percent of the responses received.
- twenty percent are Management and Operations Issues.
- pricing Issues represent just under fourteen percent of the comments received, and
- the remainder is split between Contracting Issues and Strategy Issues.

We were gratified by the many positive comments on the quality of the Draft RFPs, and the good support indicated for some key acquisition

features including performance-based specifications, service level agreements, and service enabling devices.

As you can tell by the numbers, most of the comments were oriented to make the technical portions of the contract better, and we are pleased to say, approximately 40% resulted in a change to the Draft RFP. Of course, some comments submitted by industry cite issues with which we do not agree. I will review those issues and provide comments on GSA's perspective with regard to them.

Acquisition Approach

Some comments suggested that the best approach for Networx is to release a statement of objectives that would provide an umbrella contract under which contractors could propose a unique solution to meet the individual needs of each agency. While we understand this approach, our customers and GSA do not think this would allow the government to capitalize on its tremendous requirements volume to achieve best possible pricing. Furthermore, many agencies believe that this would pose a significant resource burden upon them which would also undermine the value of the program.

We believe that head-to-head fixed price competition for a large volume of services is the best approach to ensure the government receives the best prices across the board. Our approach greatly reduces the time and resources each agency would need to evaluate and compete a unique

agency solution. Finally, our approach introduces a level of standardization, oversight and interoperability across government that would be difficult to obtain if each agency implemented their own unique solution.

Management and Operations

GSA received comments from industry suggesting that the requirements for Management and Operations are excessive. In particular, some stated that the business opportunities on Enterprise do not justify the initial investment dictated by the Enterprise operational requirements. While GSA does not believe the requirements described in the Draft RFPs are inappropriate, we do acknowledge that they are significant. Accordingly, we reviewed Networx Universal and Enterprise Management and Operations sections carefully, in an effort to relax requirements where possible. As a result, GSA reduced the number of reports, made some reports optional at Agency request, and delayed delivery of others. In addition, we extended some provisioning intervals, revised some service level agreements, and reduced some credits based on industry comments. Nevertheless, important operational requirements that reflect the stated needs of our customers remain. For example, the Government requires that potential awardees provide assurance that they can process an order and bill for their service before receiving an order from an Agency. Eliminating this requirement would not be in the best interest of the Government and certainly would not be in the best interest of an industry service provider if

agencies chose to go elsewhere because their requirements could not be met.

In addition, GSA has continued working with customers and industry to ensure that the government requirements for billing and ordering data are not excessive. As previously stated, GSA reduced government requirements by 62% and believes that the result is the minimum requirement for preserving the government's ability to validate and justify telecommunications expenditures, and to maintain required inventories.

Industry Opportunities on Enterprise

Several industry comments suggested that because the business case for competing on Enterprise is difficult to justify, minimum revenue guarantees (MRGs) should be increased. As we have indicated in past testimony, we believe that Enterprise will provide solid opportunities for business growth in the government market. IP and wireless services represent the future of the telecommunications industry, and are mandatory services on Enterprise. Companies that offer these services will be able to expand their service portfolios with new offerings. But, these are opportunities, not guarantees. Agencies, not GSA, will choose the contractors they want to provide services through the Fair Opportunity process.

While GSA strongly believes that the opportunities on Enterprise justify the initial investment, we also understand that the initial investment may discourage some companies from bidding. We desire healthy and robust

competition throughout the life of the program and we know that Enterprise awardees will help make that happen. As a result of industry comments received from the draft RFPs and our further analysis, we have decided to double the Enterprise MRGs to \$50M which will be divided equally among the Enterprise contract awardees. In the event of 5 Enterprise awards, each awardee would be guaranteed ten million dollars worth of business.

Price Management Mechanism

Not surprisingly, comments to the Draft RFPs indicate that the Networx price management mechanism is not popular with industry. GSA believes, however, that it is in the best interests of the government for prices on Networx to compare favorably with other prices available in the marketplace. If prices decline below Networx prices, based on changes in technology or other market forces, government prices should remain comparable with the rest of the marketplace. We believe that the process described in the RFP assures visibility into pricing, and is a fair and reasonable approach to assure desirable pricing over the life of the contracts. As such, we have elected to include a price management mechanism in the Universal and Enterprise RFPs.

Other Challenges to be Resolved

In addition to these industry concerns, the program continues to address other issues of importance to the management and long term success of Networx.

Performance Measures

GSA has developed metrics and performance measures for each of the Networx Program Goals. Success in meeting some of these goals will be measurable when the contracts are awarded, and for others, success will be measured continuously until the contract expires. GSA will continue to review and assess the effectiveness of Networx performance measures after contract award, and will add new measures as needed to assure sound performance management of the program.

Transition & Inventories

We continue to make progress on the transition planning activities that began with establishment of the IMC Transition Working Group almost two years ago. As we have previously discussed, lack of accurate inventories was an important lesson learned from the last transition and has been a subject of continuing focus on the Networx Program. Both GSA and our agency customers realize the importance of accurate inventories and are working hard to ensure that inventories are accurate and complete prior to the start of the Networx transition. In this regard, our requirements for identifying the wire centers that must be priced as part of Universal proposals has been very helpful in validating inventories. At our request, on January 21, 2005, agencies completed a validation of current FTS2001 dedicated services, providing us a core inventory of validated services to which we are adding information from FTS2001 vendors on switched services. Three agencies have already validated their complete

inventories. Others depend on GSA to provide them the best information available for their review and validation. Our goal is to have complete transition-ready inventories that will allow us to move all services from the current contracts to Networx, without stranding any services, one month after the award of the Networx contracts.

Concurrent with our efforts to gather and validate inventory data, we are continuing with other transition activities. GSA and the IMC have agreed on a taxonomy document that allocates transition costs between GSA and customer agencies. We have jointly requested that each agency CIO identify a transition manager to begin planning with the Transition Working Group and within their respective agency. Agencies have begun to respond to this request, and the list of individuals who will be assigned specific duties related to the transition of agency telecommunications services is growing. On February 1, 2005, GSA awarded a transition support contract. That contractor is consolidating lessons learned documentation from GSA and agencies and incorporating them into the comprehensive Transition Strategy and Management Plan. This plan will outline the requirements for the entire transition, including timelines and responsibilities, and will include procedures and guidance to ensure we address the lessons learned from the last transition. Although not complete, an outline of this document is finished and a number of sections have been drafted and are under review. Finally, requirements have been added to the RFP to ensure that Networx awardees provide a Transition Management Plan to confirm their understanding of the transition process,

to describe how they will meet the challenges of managing transition activities, and to identify the resources they will need to accomplish the task.

Schedule

Our schedule for Networx is very aggressive. It must be aggressive to ensure that the contracts are awarded in sufficient time to allow agencies the time they need to transition from current contracts to Networx. We were able to release the draft RFPs a few days ahead of schedule, and we have pressed hard to complete the review and evaluation of all comments received from industry. We have completed source selection and evaluation sections of the RFPs. At this time, we have several remaining challenges that are normal to a complex procurement, but we expect to release the RFPs on or near our current schedule date, with one caveat. While the released RFPs will include all location data for Networx Universal and Networx Enterprise, they will not include specific service and demand data to be provided by GSA on a web-based pricing model. This model will allow industry to perform price modeling analysis and to make overall price determinations. This additional data will be provided in late May. The model is a complex, sophisticated software tool with stringent security requirements to support a very comprehensive program. Development is underway and upon completion, it will require a comprehensive security certification and testing. The pricing model is too important to the program to rush its implementation and risk not getting it right. Therefore, we will

release everything but the pricing model on schedule and will release the pricing model as soon as it is available. Our current schedule calls for industry proposals to be submitted to the government on July 5, 2005. This will give industry a full month to utilize the pricing model prior to that date. Our goal is to remain on schedule for making awards on both contracts in April of 2006.

I want to state for the benefit of the Members of the Committee, the industry representatives, and our customer agencies, that while my GSA executive leadership team is moving forward with plans for the merger of the Federal Technology Service and the Federal Supply Service, the Networx program and the resources necessary to support the program and its schedule will continue under the new organization.

Closing

Mr. Chairman, in your opening remarks at the September 2004 hearing on Networx, you set a high bar for this program: You said “the Networx program must be crafted to become the ‘best choice’ for customer agencies as they design telecommunications plans to meet their diverse management challenges”.

We believe we have done just that: we have listened carefully to your Committee’s guidance and the feedback from customers and industry. We have revised our strategy in significant ways. The Networx program is well-defined, has strong support from our agency customers, and offers

significant opportunities for industry service providers. This program continues a proven legacy of achieving low cost telecommunication service while remaining agile to transport government-wide networks well into the future.

Thank you for the opportunity to testify before your Committee. I will answer any questions you may have regarding the Networx program.